

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Pokagon</u>	County Cass
Audit Date March 31, 2006	Opinion Date July 28, 2006	Date Accountant Report Submitted To State: September 25, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |                                                                     |                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.                                                                                                                                                                                                                             |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).                                                                                                                                                                                                      |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).                                                                                                                                                                                                                |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.                                                                                                                                             |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])                                                                                                                                               |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.                                                                                                                                                                                                                     |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).                                                                                                                                                                                                         |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).                                                                                                                                                                                                                                |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

# **Township of Pokagon, Michigan**

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**Financial Report**  
**with Supplemental Information**  
**March 31, 2006**

# Township of Pokagon

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**Plante & Moran, PLLC**

Suite 120  
511 Renaissance Drive  
St. Joseph, MI 49085  
Tel: 269.982.8000  
Fax: 269.982.2800  
plantemoran.com

## Independent Auditor's Report

To the Members of the Township Board  
Township of Pokagon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pokagon as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Pokagon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pokagon as of March 31, 2006 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

July 28, 2006

A member of



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# **Township of Pokagon**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the Township of Pokagon's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$1,000 this year. The Township reacted by not starting any new projects and controlling spending in all departments, which resulted in a fund balance increase of approximately \$85,000 in the General Fund.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

# Township of Pokagon

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2006 and 2005:

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current assets	\$ 1,240,605	\$ 1,102,317
Noncurrent assets	208,976	169,821
Total assets	1,449,581	1,272,138
<b>Current Liabilities</b>	10,248	9,858
<b>Net Assets</b>		
Invested in capital assets	208,976	169,821
Restricted	323,811	263,479
Unrestricted	906,546	828,980
Total net assets	<u>\$ 1,439,333</u>	<u>\$ 1,262,280</u>

The Township's net assets increased approximately 14 percent from a year ago - increasing from \$1,262,280 to \$1,439,333. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$78,000 for governmental activities. This represents an increase of approximately 9 percent. During the year, the board designated approximately \$75,000 of the unrestricted net asset balance, which will be used toward the purchase of a new fire truck. The current level of unrestricted net assets for our governmental activities stands at \$906,546.

# Township of Pokagon

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year as compared to the prior year:

	Governmental Activities	
	2006	2005
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 39,002	\$ 28,762
Operating grants and contributions	12,108	12,196
Capital grants and contributions	4,800	57,766
General revenue:		
Property taxes	190,426	177,788
State-shared revenue	150,601	151,403
Unrestricted investment earnings	34,544	11,944
Franchise fees	-	7,101
Other revenue	6,944	6,301
Total revenue	438,425	453,261
<b>Program Expenses</b>		
General government	123,878	124,913
Public safety	120,258	118,635
Community and economic development	17,236	94,899
Total program expenses	261,372	338,447
<b>Change in Net Assets</b>	<b>\$ 177,053</b>	<b>\$ 114,814</b>

### Governmental Activities

The Township's total governmental revenues decreased by approximately \$15,000. The decrease was due in large part to the fact that no federal grant dollars were received in 2006, as well as the decrease in state-shared revenue.

Expenses decreased by about \$77,000 during the year. Decreases were led by postponing major projects and purchases, as well as the road construction project in prior year related to the federal grant revenue.

# **Township of Pokagon**

## **Management's Discussion and Analysis (Continued)**

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### **The Township's Funds**

Our analysis of the Township's major funds begins on page 8, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages for fire and ambulance services. The Township's major funds for 2005 include the General Fund and the Fire Fund.

The General Fund pays for most of the Township's governmental services. The most significant is public safety, which incurred expenses of approximately \$120,000 in 2006 for fire protection and ambulance services. These two services are partially supported by property taxes.

### **General Fund Budgetary Highlights**

There were no significant variations between original and final budget amounts. In the upcoming year, the Township plans to start work on the Sink Road project, which is expected to cost approximately \$76,000. The project expenditures will be offset by federal grant revenue.

### **Capital Asset and Debt Administration**

The only major capital additions during the current year related to various road improvement projects, which totaled approximately \$44,000.

### **Economic Factors and Next Year's Budgets and Rates**

The Township is anticipating 1,500 acres of property coming off the tax rolls once the Pokagon Band of Potawatomi Indians' application is approved for trust status. The Township has not yet determined the effect of this transaction on the revenue of the Township.

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.



# Township of Pokagon

## Statement of Net Assets March 31, 2006

	Governmental Activities
<b>Assets</b>	
Cash and equivalents (Note 3)	\$ 396,557
Investments (Note 3)	829,934
Receivables - Net (Note 4)	14,114
Capital assets - Net (Note 5)	<u>208,976</u>
Total assets	1,449,581
<b>Liabilities</b>	
Accounts payable	9,349
Accrued and other liabilities	<u>899</u>
Total liabilities	<u>10,248</u>
<b>Net Assets</b>	
Invested in capital assets	208,976
Restricted:	
Cemetery	83,019
Fire	231,739
Ambulance	7,770
Construction code activities (Note 2)	1,283
Unrestricted	<u>906,546</u>
Total net assets	<u><u>\$ 1,439,333</u></u>

# Township of Pokagon

## Statement of Activities Year Ended March 31, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government - Governmental Activities
<b>Functions/Programs</b>					
Primary government - Governmental activities:					
General government	\$ 123,878	\$ 7,255	\$ -	\$ 4,800	\$ (111,823)
Public safety	120,258	31,747	-	-	(88,511)
Community and economic development	17,236	-	12,108	-	(5,128)
Total governmental activities	<b>\$ 261,372</b>	<b>\$ 39,002</b>	<b>\$ 12,108</b>	<b>\$ 4,800</b>	(205,462)
General revenues:					
Property taxes					190,426
State-shared revenues					150,601
Unrestricted investment earnings					34,544
Other revenue					6,944
Total general revenues					382,515
<b>Change in Net Assets</b>					177,053
<b>Net Assets - Beginning of year</b>					1,262,280
<b>Net Assets - End of year</b>					<b>\$ 1,439,333</b>

# Township of Pokagon

## Governmental Funds Balance Sheet March 31, 2006

			Nonmajor Funds		
			Cemetery	Ambulance	Total
	General Fund	Fire Special Revenue Fund	Special Revenue Fund	Special Revenue Fund	Governmental Funds
<b>Assets</b>					
Cash and equivalents	\$ 259,649	\$ 48,687	\$ 83,019	\$ 5,202	\$ 396,557
Investments	655,440	173,445	-	1,049	829,934
Receivables - Net	2,988	9,607	-	1,519	14,114
Total assets	<u>\$ 918,077</u>	<u>\$ 231,739</u>	<u>\$ 83,019</u>	<u>\$ 7,770</u>	<u>\$ 1,240,605</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 9,349	\$ -	\$ -	\$ -	\$ 9,349
Accrued and other liabilities	899	-	-	-	899
Total liabilities	10,248	-	-	-	10,248
<b>Fund Balances</b>					
Reserved for:					
Cemetery	-	-	83,019	-	83,019
Construction code activities	1,283	-	-	-	1,283
Unreserved, reported in:					
Designated - Capital expenditures -					
Special Revenue Funds	-	74,910	-	-	74,910
Undesignated:					
General Fund	906,546	-	-	-	906,546
Special Revenue Funds	-	156,829	-	7,770	164,599
Total fund balances	<u>907,829</u>	<u>231,739</u>	<u>83,019</u>	<u>7,770</u>	<u>1,230,357</u>
Total liabilities and fund balances	<u>\$ 918,077</u>	<u>\$ 231,739</u>	<u>\$ 83,019</u>	<u>\$ 7,770</u>	
Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and are not reported in the funds					
					<u>208,976</u>
Net assets of governmental activities					<u>\$ 1,439,333</u>

# Township of Pokagon

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2006

			Nonmajor Funds		
			Cemetery	Ambulance	Total
			Special	Special	Governmental
	General Fund	Fire Special Revenue Fund	Revenue Fund	Revenue Fund	Funds
<b>Revenue</b>					
Property taxes	\$ 46,405	\$ 130,026	\$ -	\$ 13,995	\$ 190,426
State sources	162,709	-	-	-	162,709
Fees and permits	35,227	-	-	-	35,227
Interest income	27,965	4,088	2,461	30	34,544
Other	6,944	-	3,775	-	10,719
Total revenue	279,250	134,114	6,236	14,025	433,625
<b>Expenditures</b>					
General government	116,620	-	-	-	116,620
Public safety	19,037	87,521	-	13,700	120,258
Community and economic development	58,849	-	-	-	58,849
Total expenditures	194,506	87,521	-	13,700	295,727
<b>Net Change in Fund Balances</b>	84,744	46,593	6,236	325	137,898
<b>Fund Balances</b> - Beginning of year	823,085	185,146	76,783	7,445	1,092,459
<b>Fund Balances</b> - End of year	<u>\$ 907,829</u>	<u>\$ 231,739</u>	<u>\$ 83,019</u>	<u>\$ 7,770</u>	<u>\$ 1,230,357</u>

# Township of Pokagon

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2006**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 137,898</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Additions	45,083
Depreciation	(10,728)

Contributions of equipment are not recorded in the governmental funds

4,800
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<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 177,053</u></b>
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# **Township of Pokagon**

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## **Notes to Financial Statements March 31, 2006**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Township of Pokagon (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Pokagon:

#### **Reporting Entity**

The Township of Pokagon is governed by an elected five-member board of trustees. The accompanying financial statements present the activities of the Township. There are no component units to be included in these financial statements in accordance with accounting principles generally accepted in the United States of America.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Individual governmental funds are reported as separate columns in the fund financial statements.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from property taxes, state-shared revenue, and other sources.

**Special Revenue Fund - Fire Fund** - The Fire Fund accounts for resources from a property tax levy restricted for payments to contracted local fire departments.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

# **Township of Pokagon**

## **Notes to Financial Statements March 31, 2006**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended March 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Township totaled \$55.3 million, on which taxes levied consisted of 0.0820 mills for operating purposes. There were also taxes levied for fire and ambulance services (with varying taxable properties and millages). This resulted in approximately \$46,000 for operating, \$130,000 for contracted fire services, and \$14,000 for contracted ambulance services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Capital Assets** - Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



# Township of Pokagon

## Notes to Financial Statements March 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	40 years
Buildings and improvements	40 years
Public safety vehicle	25 years
Road improvements	20 years
Land improvements	40 years

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Accumulated surplus - April 1, 2005		\$	1,550
Current year building permit revenue			27,175
Related expenses:			
Direct costs	\$	19,037	
Estimated indirect costs		<u>8,405</u>	<u>27,442</u>
Current year deficiency			<u>(267)</u>
Accumulated surplus - March 31, 2006		\$	<u><u>1,283</u></u>

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in compliance with the state statutory authority as listed above. The Township's deposits and investment policies are also in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$124,610 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Township of Pokagon

## Notes to Financial Statements March 31, 2006

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

Type of Investment	Carrying Value	Rating	Organization
Fidelity Institutional Money Market Funds	\$ 829,934	Aaa	Moody's

### Note 4 - Receivables

Receivables as of year end for the Township's individual major funds and the aggregate nonmajor funds are as follows:

	General Fund	Fire Special Revenue Fund	Nonmajor Funds	Total
Receivables - Taxes	<u>\$ 2,988</u>	<u>\$ 9,607</u>	<u>\$ 1,519</u>	<u>\$ 14,114</u>

# Township of Pokagon

## Notes to Financial Statements March 31, 2006

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance April 1, 2005	Additions	Disposals	Balance March 31, 2006
<b>Governmental Activities</b>				
Capital assets not being depreciated - Land	\$ 14,648	\$ -	\$ -	\$ 14,648
Capital assets being depreciated:				
Land improvements	7,362	-	-	7,362
Buildings and improvements	93,530	-	-	93,530
Public safety vehicle	81,707	-	-	81,707
Road improvements	-	43,803	-	43,803
Office furnishings	37,530	6,080	(386)	43,224
Subtotal	220,129	49,883	(386)	269,626
Accumulated depreciation:				
Land improvements	3,937	184	-	4,121
Buildings and improvements	21,774	2,338	-	24,112
Public safety vehicle	6,536	3,269	-	9,805
Road improvements	-	2,190	-	2,190
Office furnishings	32,709	2,747	(386)	35,070
Subtotal	64,956	10,728	(386)	75,298
Net capital assets being depreciated	155,173	39,155	-	194,328
Net capital assets	<u>\$ 169,821</u>	<u>\$ 39,155</u>	<u>\$ -</u>	<u>\$ 208,976</u>

Depreciation expense was charged to the programs of the primary government as follows:

Governmental activities:	
General government	\$ 8,538
Community and economic development	<u>2,190</u>
Total governmental activities	<u>\$ 10,728</u>

### **Note 6 - Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township participates in the Michigan Townships Participating Plan for all claims.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

## **Required Supplemental Information**

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# Township of Pokagon

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2006

	Original/Final Budget	Actual	Variance with Final Budget
<b>Revenue</b>			
Property taxes	\$ 40,000	\$ 46,405	\$ 6,405
State sources	162,800	162,709	(91)
Fees and permits	34,870	35,227	357
Interest income	10,000	27,965	17,965
Other	8,000	6,944	(1,056)
Total revenue	255,670	279,250	23,580
<b>Expenditures</b>			
General government:			
General	30,050	21,205	8,845
Supervisor	33,700	31,188	2,512
Elections	500	630	(130)
Clerk	14,300	12,847	1,453
Board of Review	800	772	28
Treasurer	14,500	13,475	1,025
Township Hall	14,200	9,590	4,610
Cemetery	16,330	17,446	(1,116)
Other	15,200	9,467	5,733
Total general government	139,580	116,620	22,960
Public safety	23,830	19,037	4,793
Community and economic development	92,260	58,849	33,411
Total expenditures	255,670	194,506	61,164
<b>Change in Net Assets</b>	-	84,744	84,744
<b>Fund Balance - Beginning of year</b>	753,348	823,085	69,737
<b>Fund Balance - End of year</b>	<u>\$ 753,348</u>	<u>\$ 907,829</u>	<u>\$ 154,481</u>

# Township of Pokagon

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Fire Fund Year Ended March 31, 2006

	Original/Final Budget	Actual	Variance with Final Budget
<b>Revenue</b>			
Property taxes	\$ 124,169	\$ 130,026	\$ 5,857
Interest income	500	4,088	3,588
Total revenue	124,669	134,114	9,445
<b>Expenditures - Public safety</b>	123,735	87,521	36,214
<b>Change in Net Assets</b>	934	46,593	45,659
<b>Fund Balance - Beginning of year</b>	147,079	185,146	38,067
<b>Fund Balance - End of year</b>	<u>\$ 148,013</u>	<u>\$ 231,739</u>	<u>\$ 83,726</u>



# **Township of Pokagon**

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## **Note to Required Supplemental Information**

### **Note - Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Fire Special Revenue Fund. All annual appropriations lapse at fiscal year end. The Township supervisor prepares the budget 30 to 60 days prior to year end after consulting with department heads. The budget is submitted to the board for approval in late March, and was not amended during the year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrance accounting is not employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

There were no significant expenditure budget overruns for the fiscal year ended March 31, 2006.

To the Members of the Township Board  
Township of Pokagon  
30683 Peavine St.  
Dowagiac, MI 49047

Dear Board Members:

We have recently completed our audit of the financial statements of the Township of Pokagon for the year ended March 31, 2006 and have issued our report thereon dated July 28, 2006. In addition to the audit report, we offer the following comments and recommendations for your consideration:

### **Overview of Financial Condition**

During the year ended March 31, 2006, the Township's financial condition improved as General Fund revenues exceeded expenditures by approximately \$85,000. As a result, fund balance at March 31, 2006 increased to approximately \$908,000.

### **ACH Transactions**

Electronic payments of public funds are required for some federally mandated transactions of public funds, and electronic payments have become a commonly accepted practice by banks and other financial institutions. Public Act 738 of 2002, effective December 30, 2002, authorizes townships to make electronic transactions involving public funds by electronic payment, debit, or credit transfer processed through an automated clearing house (ACH). PA 738 authorizes a township treasurer to enter into an ACH arrangement for a national and governmental organization that has authority to process electronic payments, including, but not limited to, the National Automated Clearing House Association and the Federal Reserve System.

The Township has only had a few ACH transfers in the last few years. However, the Township anticipates joining the Michigan CLASS for investment purposes during fiscal 2007. This investment pool will require the Township to wire money into the pool and to possibly receive wire transfers of investment income. The Township should develop a policy and resolution in regard to these electronic transactions as technology continues to evolve and ACH transfers become more common.

## **Board Minute Documentation**

The Township board minutes did not include documentation for several items, which we would normally expect to see acknowledged in writing for legal purposes. For example, the approval of annual millage rates and the designation of the fire sinking fund balance for future capital expenditures would typically be documented in the board minutes. While it is our understanding, based on our discussions with Township board members, that these items were approved by the board at public meetings, we recommend that these types of significant decisions be documented in the meeting minutes.

## **State-shared Revenue**

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. As with the past several years, revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at approximately fiscal year 2004/2005 levels.

The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

State-shared revenue accounts for approximately 54 percent of the Township's total General Fund revenue. The table below details state-shared revenue for the Township over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the Township compared to the State's fiscal year 2001.

<u>State Fiscal</u> <u>Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from</u> <u>2001</u>
2001	\$31,845	\$142,697	\$174,542	\$-
2002	\$30,459	\$144,151	\$174,610	\$(68)
2003	\$25,483	\$146,591	\$172,074	\$2,468
2004	\$9,653	\$144,999	\$154,652	\$19,890
2005	\$4,506	\$148,460	\$152,966	\$21,576
2006	\$298	\$150,931	\$151,229	\$23,313

To the Members of the Township Board  
Township of Pokagon

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the Township has approximately \$4,500 at risk in its General Fund budget based on 2005 funding levels. We will continue to update the Township as developments occur. The statutory formula expires in 2007 and requires action by the Legislature.

We would like to thank the members of the Township board for the opportunity to serve as the auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us during our audit. As always, please feel free to call with questions regarding the information above or that which is presented in the general purpose financial statements.

*Plante & Moran, PLLC*

July 28, 2006